

## MEMORANDUM

DATE: August 15, 2006

TO: Mayor and City Council

FROM: Gary Carnahan

SUBJECT: TIF Project Plan

We are pleased to present for your review the TIF District Project Plan. You approved the TIF District on December 21, 2004 but we must have an approved project plan before we can actually start a construction project with TIF funding.

You will see that the TIF Project Plan has required a lot of work to prepare and includes a number of elements. Bill Lonon has carried the ball and kept this work alive over the last year and a half. We owe him a hearty pat on the back for his patient efforts.

As you read through the Project Plan you will see the word “conservative” several times. We have had multiple conversations with bond underwriters, bond attorneys, other cities, and Benton County about implementing our TIF District and the recurring theme is to use the most conservative assumptions in every decision. And, we have.

As you know, the TIF idea is to freeze the real estate taxes at a base value and use the increase (the increment) to pay off a construction bond. The construction bond is used to build infrastructure or a project that will benefit the TIF District and create an increase or increment in the real estate taxes for the affected property. In our case our TIF District is large and includes a number of projects. The projects all address the absence of infrastructure that is hindering growth.

Benton County real estate taxes include millage for a number of important things that we have excluded from our construction and financial planning. Excluded items include the public school millage, the police and fire pension fund, and the NWA Community College. The millage items included in our analyses are the City general fund mills (5.0) and the County mills (6.2).

From the Economic Analysis performed by the University of Arkansas, they concluded that we could justify bonds for about \$12 million. We obtained proposals from three bond companies and have selected Morgan Keegan. Since the tax increment revenue is much lower in the early years than in later years, they have determined that they would issue an initial bond of about \$3 million and a later bond of about \$9 million.

The initial bond issue of \$3 million will actually be two types of bonds. One will have a specific repayment schedule and be based on the amount the bond company is comfortable that the TIF revenues can repay each year. The other bond will be a zero

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coupon bond, meaning that there will not be a specific repayment schedule. The total of that bond must be repaid within the 20 year term, but the payments will be the money available from the actual increment. If there is not extra TIF increment money in a given year, then no payment would be required for that bond in that year. The remaining principal of the bond will still be outstanding, but it can be delayed until a year when there are excess funds to pay it.

In addition to the two types of bonds, Morgan Keegan has obtained a Letter of Credit from Regions Bank to enhance the bond offering. With this we gain two important advantages. First, our bonds gain an investment grade A rating that will result in a lower interest rate for the bonds. Secondly, this LOC means that Regions is guaranteeing the payment of the bonds to Morgan Keegan bondholders. If the TIF District cannot make a bond payment, then Regions will make it for us. Regions will be repaid from excess tax increments in future years after the bond payment is made for those years. If there never are excess tax increment funds above the bond repayment, then Regions will suffer the loss.

The City of Lowell general fund revenues, sales tax revenues, franchise fee revenues, etc cannot be used to repay a TIF bond. Only TIF revenues can be used to repay a TIF bond.

You will notice that we have invested a lot of work to prepare the TIF project descriptions and cost estimates. And you will notice that we have identified many more projects than we will have money to build. Our purpose in doing this is to give the City as much flexibility as possible in reacting to opportunities to leverage the TIF funding with private and state funds. We also need to adjust to changes to project scope and timing affected by design problems, permitting issues, obtaining right of way, and shifts in economic investment in the City.

The final selection of the first projects has not been completed. It is important that, as much as we can, we spread the money around within the district, add infrastructure that will benefit all the citizens in the district, and invest the TIF funds where they will make the most significant early increase in the tax increment so we will have TIF revenues to repay the bonds. It is not necessary to identify the first projects before we approve the TIF Project Plan and we prefer to make that decision after the Project Plan is approved.

We will give you an overview of the Project Plan at the August 22<sup>nd</sup> Council meeting. We have advertised and will conduct a public hearing just before your Council meeting on September 5th. If you feel comfortable at that point, we will propose that you vote to approve the Project Plan in your Council meeting on September 5<sup>th</sup>.

I hope this quick overview is helpful to you as you read through the document. I will be happy to answer any questions you may have at the next two Council meetings, or in my office. Thank you for investing your time in reviewing this document.